



## **USDA Rural Development-Texas Direct Section 502 Homeownership Loans**

### **HOW MAY LOAN FUNDS BE USED?**

Homeownership loans may be used to buy, build, improve, repair, or rehabilitate rural homes and related facilities, and to provide adequate water and waste disposal systems.

Homes may be built on individual tracts or in subdivisions. Funds may also be used to modernize homes--add bathrooms, central heating, modern kitchens, and other improvements.

Borrowers may buy an existing house and lot or build a home. Under certain conditions, funds may be used to refinance debts on a home.

### **WHO MAY BORROW?**

Homeownership loans are offered to help families or persons with very low and low income. In summary, to be eligible for a Section 502 loan, applicants must:

- Have an adjusted income that is at or below the applicable low-income limit at loan approval, (except for assumed loans or loans to purchase Real Estate Owned (REO) property).
- Be unable to obtain sufficient credit from another source to purchase a dwelling.
- Agree to personally occupy the dwelling;
- Meet citizenship or eligible non-citizen requirements
- Have the legal capacity to incur a loan obligation and not be suspended or debarred from participation in Federal programs
- Demonstrate both the willingness and ability to repay the loan.
- Do not currently own a decent safe and sanitary dwelling

### **WHAT ARE THE TERMS?**

Loans may be made for up to 100 percent of the USDA Rural Development appraised value of the site and the new home if construction inspections were made by USDA Rural Development or other parties authorized by USDA Rural Development. Homes over one year old and improvements to them also may be financed with 100 percent loans. The maximum repayment period is 33 years and, under certain conditions, 38 years. The maximum repayment period for manufactured homes is 30 years.

### **IS THE BORROWER EXPECTED TO REFINANCE THE LOAN?**

USDA Rural Development loans make it possible for families of very low and low income to become owners of adequate homes. When the financial position of the borrower improves so that the loan can be refinanced through a commercial lender, the loan contract provides that this shall be done.

### **WHO DETERMINES ELIGIBILITY?**

The local USDA Rural Development loan approval official determines the eligibility of applicants.

### **WHAT ABOUT SIZE AND DESIGN OF HOMES?**

Homes must be modest in design and cost but adequate to meet family needs. The maximum loan amount for the county and the repayment ability of the applicant are the determinate factors.

### **WHO FURNISHES BUILDING PLANS?**

"USDA is an equal opportunity provider, employer and lender."

To file a complaint of discrimination write USDA, Director, Office of Civil Rights, Room 326-W, Whitten Building, 14<sup>th</sup> and Independence Avenue, SW, Washington, DC 20250-9410 or call (202) 720-5964 (voice or TDD).

## **USDA Rural Development-Texas Section 502 Homeownership Loans**

Applicants or builders are expected to supply detailed building plans, specifications, and cost estimates.

### **WHERE MAY HOUSES BE LOCATED?**

Houses will be located in rural areas, on desirable sites with an assured supply of safe drinking water and suitable arrangements for sewage disposal.

### **ARE PLANS REVIEWED AND IS CONSTRUCTION INSPECTED?**

Yes. USDA Rural Development reviews the plans. Applicants are responsible for property inspections needed to protect their own interests. Agency inspections create or imply no duty or obligation to the applicant. They are conducted to determine whether the property provides adequate security, and whether it appears to meet the program's site and dwelling requirements.

### **WHEN CAN CONSTRUCTION START?**

When a borrower obtains a loan to build or improve a home, the loan must be closed before construction starts or debts incurred for material or labor.

### **WHAT SECURITY IS REQUIRED?**

Each loan will be adequately secured to protect the Government's interest.

### **ARE THERE LOAN FEES AND OTHER CHARGES?**

The applicant pays for the legal services necessary to guarantee a satisfactory title to the site, for credit reports, and other incidental loan-closing costs.

### **WHERE DOES ONE APPLY?**

Applications are made at the USDA Rural Development Local Service Center serving the area in which the house will be located.

A list of USDA Rural Development Offices in Texas is located on the Texas USDA Rural Development Web site

[www.rurdev.usda.gov/tx/](http://www.rurdev.usda.gov/tx/)

This handout is intended only as a summary of the direct Section 502 Homeownership Loan program. More information on the direct Section 502 Homeownership Loan program can be found in USDA Rural Development Instruction HB-1-3550. It is available at

<http://www.rurdev.usda.gov/regs/hblist.html>